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SUBJECT: MOROCCO'S MARKET WATCHDOG BARES ITS FANGS

11. (SBU) Summary: Morocco's Securities and Exchange Commission, the Conseil Deontologique des Valeurs Mobilières (CDVM), for the first time in its fifteen-year history moved this month to impose order in Moroccan securities markets by issuing sanctions and warnings to a range of brokers who violated market procedures during several recent high profile initial public offerings. One firm, Upline Securities, was ordered to pay a 10 million MAD fine and faces loss of its license to act as a depository institution. Three other firms received warnings of varying severity. Given the prevalence of the sanctioned activities in recent years, commentary has been mixed on the merits of the specific punishments, but observers agree that a more active and independent CDVM is a prerequisite for further deepening and strengthening of Moroccan financial markets. End Summary.

12. (SBU) Morocco's long bull market, which has seen the exchange's capitalization double over the last two years, has been fed by a series of high profile public offerings, which have skyrocketed in value on their introduction into the market. These offerings have been surrounded by widespread rumors of favoritism in allocation of the initial blocks of shares, as well as of shady dealings by brokerages. While the CDVM has investigated such cases in the past, never before had it taken action to sanction offenders, despite being publicly encouraged to do so by Central Bank Governor Abdellatif Jouahri, among others. That changed on March 17, however, with announcement that the Council had fined Upline Securities for irregularities surrounding last year's initial public offering for real estate developer CGI. The financial sanction was the first imposed since Morocco's securities markets were reformed in the early 1990s, and at 10 million MAD (or 1.28 million USD) was an eye-catching sum. More significantly, the CDVM asked that Upline's license as a depository institution be lifted, threatening its future operations. Three other firms-- Safa-Bourse, Attijari Intermediation, and BMCE Capital Bourse received warnings of varying severity, with the most serious going to Safa and the least serious to BMCE.

13. (SBU) Rather than favoritism in allocating blocks of shares, the CDVM's allegations relate to the brokerages' failure to carry out their responsibilities as intermediaries. The Council alleges that the firms failed to verify the identity of bidders and to ensure that they had deposited sufficient funds to cover their positions. Observers note that in the run-up to the CGI offering, which was expected to be particularly lucrative, foreign investors had constituted a range of hedge funds which registered to

participate. On securing initial blocks of shares, they quickly turned around and resold them for a quick profit. To different degrees, as reflected in the severity of their punishment, given their expectation that the initial purchasers' positions would be quickly liquidated, the brokerages failed to ensure that their clients had funds to cover their positions. What aggravated Upline's case, CDVM Dounia Taarija has said in public interviews, is the fact that it used funds deposited by other clients to settle these accounts. In so doing, she charged, Upline had violated its fiduciary responsibilities as a depository institution, in that "unlike banks, brokers don't have the right to "globalize the deposits they have received and use them for other purposes."

14. (SBU) If observers agree that a strong and independent market watchdog is an essential prerequisite for further strengthening of Morocco's capital markets, the specific sanctions applied in this case have had a mixed reaction. One of Morocco's leading French weeklies, "Le Journal Hebdo," which has given extensive coverage in recent weeks to Upline's troubled relationship with the CDVM, has been particularly critical, arguing that the CDVM has "Hit Hard instead of Hitting Fairly" and thereby exercised a "selective coercion." It notes that the same practices were widespread during other recent oversubscribed public offerings, including for Maroc Telecom and Addoha, hinting obliquely that the CDVM is seeking to settle scores with the firm for its willingness to air the matter in public.

15. (SBU) "Le Journal" and other observers also highlight the fact that the problems in Moroccan markets have stemmed not just from shady practices, but from "shortcomings" in regulations governing Morocco's security markets. They argue that the purchase of stocks on credits is allowed virtually everywhere in the world except Morocco, and as a result the law has been largely ignored-- trading on credit, one broker told "Le Journal," is "like alcohol, tolerated, but not legal." The CDVM has also held back from other steps that some believe would increase the market's transparency-- such as requiring that all transactions occur on the central exchange, and thereby eliminating the secondary market where blocks of shares often trade hands for prices below those quoted on the central exchange. "Le Journal" and others thus question whether Upline really was a particularly bad actor, and have contrasted its fate with that of CFG securities, which also handled a large volume of the transaction but escaped unscathed. (For their part, CFG executives note that they were not part of the syndicate that handled foreign hedge fund shares, and were fully cleared by the Council of any wrongdoing.)

16. (SBU) Comment: Whatever the merits of the specific punishments, which undoubtedly will be the subject of litigation in coming weeks, a more active market watchdog is good news for Moroccan securities markets. Central Bank Governor Jouahri and others have called repeatedly in recent months for the council to not just study abuses, but to actually sanction offenders. By doing so, the CDVM has put market operators on notice and begun the process of increasing the market's transparency and instilling greater market discipline. Our contacts in the field note that the institution has been ready to take this step for some time, but was held back by its political masters, and in particular the former Minister of Finance, who felt Moroccan markets were not ready for such a step. Under new Minister of Finance Mezouar, who chaired the council that approved the penalties, Moroccan market regulation has clearly turned a new page. End Comment.

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